

Message Text

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17

ACTION EUR-12

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SUBJ: FINLAND'S BALANCE OF PAYMENTS PROBLEMS CONTINUE

REF: HELSINKI 1273

1. SUMMARY: FINLAND'S BALANCE OF PAYMENTS CONTINUES TO BE THE COUNTRY'S MOST SERIOUS ECONOMIC PROBLEM. FINLAND IS NOW SPENDING IN WORLD MARKETS 20 PERCENT MORE THAN IT EARNS IN THOSE MARKETS. MORE THAN 6 PERCENT OF THE COUNTRY'S AGGREGATE DEMAND IS FINANCED WITH FOREIGN LOANS. AT THE END OF THIS YEAR, PROJECTIONS INDICATE THAT THE COUNTRY'S NET FOREIGN INDEBTEDNESS WILL AMOUNT TO 17-18 BILLION FINNMARKS. THIS WOULD MEAN THAT FOREIGNERS WOULD HAVE CLAIM TO ABOUT A FIFTH OF THE COUNTRY'S ANNUAL PRODUCTIVE CAPACITY. END SUMMARY.

2. THE FINNS ARE HOPING FOR RECOVERY IN EXPORT MARKETS WHICH WOULD REDUCE THE TRADE DEFICIT TO MORE MANAGE-
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ABLE PROPORTIONS. EXPORT VOLUME FOR 1975 IS PROJECTED

TO DECLINE BY ABOUT 4 PERCENT BUT THE FINNS ARE HOPING FOR A 9 PERCENT INCREASE IN EXPORTS IN 1976. SUCH A GROWTH OF EXPORTS, ASSUMING FAVORABLE PRICES AND THE MAINTENANCE OF CURRENT LEVEL OF SPENDING ON IMPORTS, WOULD RESULT IN A REDUCTION OF COUNTRY'S TRADE DEFICIT. THE FINNS ARE LOOKING MAINLY TO WEST EUROPEAN MARKETS AS THE ENGINE OF THEIR RETURN TO ECONOMIC GROWTH AND THEY HOPE THAT THE PRESENT SLUMP IN EXPORTS WILL BE AN ONLY TEMPORARY PHENOMENON.

3. EMBASSY DOES NOT SHARE OPTIMISTIC FINNISH VIEW THAT A SUDDEN SURGE IN EXPORT DEMAND WILL OCCUR IN LATE 1975 OR EARLY 1976 WHICH WOULD MOVE TRADE ACCOUNT TOWARDS EQUILIBRIUM. WE PROJECT CONTINUATION OF SLUGGISH EXPORT DEMAND. THERE ARE TWO FACTORS WHICH ACT AS A DRAG ON FINLAND'S PROJECTED EXPORT RECOVERY: (1) WEST EUROPEAN DEMAND FOR FINNISH EXPORTS ARE NOT LIKELY TO REBOUND IN THE NEXT 6-12 MONTHS. (2) FINLAND'S RELATIVE PRICE LEVEL IS GOING UP AT FASTER RATE THAN WEIGHTED AVERAGE OF PRICE LEVELS OF ITS TRADING PARTNERS. THIS IS CAUSING A DECLINE IN FINLAND'S INTERNATIONAL COMPETITIVENESS. WE THINK THAT ADJUSTMENTS NEEDED TO BRING ABOUT SOME SORT OF EQUILIBRIUM IN FINLAND'S FOREIGN TRADE WILL BE MORE DIFFICULT THAN FINNS ARE NOW ADMITTING IN PUBLIC. THE DECLINE IN DEMAND FOR FINLAND'S EXPORTS WILL HAVE DIRECT EFFECTS AND SECONDARY EFFECTS IN OTHER SECTORS OF THE ECONOMY WHICH WILL RESULT IN UNEMPLOYMENT (CURRENTLY A LOW 2.2 PERCENT) AND A DECLINE IN THE COUNTRY'S ECONOMIC GROWTH RATE OR EVEN STAGNATION.

4. FURTHER REACTION OF FINNISH GOVERNMENT TO ITS STILL GROWING TRADE IMBALANCE WILL PROBABLY INVOLVE ONE OR MORE OF FOUR MEASURES: (1) CONTINUED DEFLATION OF THE DOMESTIC ECONOMY THROUGH TIGHT MONETARY POLICY AND A CURTAILMENT OF PUBLIC SPENDING; (2) MORE ACTIVE PROMOTION OF EXPORT AND FOSTERING OF IMPORT-SUBSTITUTING PRODUCTION; (3) TIGHTER GOVERNMENT RESTRICTIONS ON IMPORTS AND (4) DEVALUATION. THE GOVERNMENT IN ITS MARCH IMPORT DEPOSIT SCHEME USED THE FIRST THREE LIMITED OFFICIAL USE

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POLICIES AS PART OF ITS PROGRAM TO BALANCE THE TRADE ACCOUNT. THE RESULTS OF THAT PROGRAM HAVE NOT BEEN AS FAVORABLE AS GOVERNMENTAL OFFICIALS HAD HOPED AND PREDICTED, AND RECENT ESTIMATES PUT THE TRADE DEFICIT FOR 1975 AS HIGH AS FMK 6 BILLION. IMPORTS ARE AT A LOWER LEVEL THAN THEY WOULD HAVE BEEN HAD THERE BEEN NO IMPORT DEPOSIT, BUT THE DECLINE IN EXPORTS HAS CAUSED A TRADE DEFICIT OF MAGNITUDE WHICH WAS NOT

FORECAST BY ANY OF FINLAND'S ECONOMIC RESEARCH CENTERS. DEVALUATION WAS RULED OUT AS UNLIKELY TO BE OF ANY USE, IN VIEW OF LOW LEVEL OF DEMAND, NOT PRICE-RELATED, IN FOREIGN MARKETS BUT MAY BE RESORTED TO AFTER ECONOMIC RECOVERY IS WELL ESTABLISHED. IN MAJOR WESTERN MARKETS. OTHERWISE FINNISH PRODUCTS ARE APT TO BE PRICED OUT OF THESE MARKETS.

5. WE EXPECT NO IMPROVEMENT IN FINLAND'S BALANCE OF PAYMENTS DURING THE NEXT 12 MONTHS IF CURRENT POLICIES ARE FOLLOWED. BY LATE 1975 OR EARLY 1976 FINLAND MAY HAVE TO IMPLEMENT MORE DIRECT ACTION IN ORDER TO BRING EQUILIBRIUM TO ITS FOREIGN TRADE. THIS MIGHT INCLUDE QUANTITATIVE IMPORT CONTROLS, ALTHOUGH GOVERNMENT AND BANK OF FINLAND OFFICIALS HAVE RECENTLY REPEATED DESIRE AVOID RESORTING TO THEM, INTER ALIA BECAUSE OF FEAR OF RETALIATION.
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